Promoting growth and development through trade

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The implementation of the Bali package of multilateral trade agreements will require all WTO members to work together in a spirit of generosity

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The past two decades have seen the fastest rate of poverty reduction in history. International trade has played, and continues to play, a central role in this. Successful developing economies have embraced market-oriented policies and used the open global economy as a source of demand, technology and ideas. Open access to important markets makes it possible for developing countries to pursue export-led growth strategies – and many are doing so, with great success. Led by China, they have taken advantage of steadily diminishing trade barriers at home and abroad to import what the world offers, and export what it is willing to buy.

These open markets did not come about by accident. Successive rounds of multilateral trade liberalisation under the General Agreement on Tariffs and Trade (GATT) redefined the openness of the global economy from the wreckage of the 1930s and '40s. The World Trade Organization, which succeeded the GATT in 1995, has further enhanced the rules and ever-stronger norms in favour of liberalised markets.

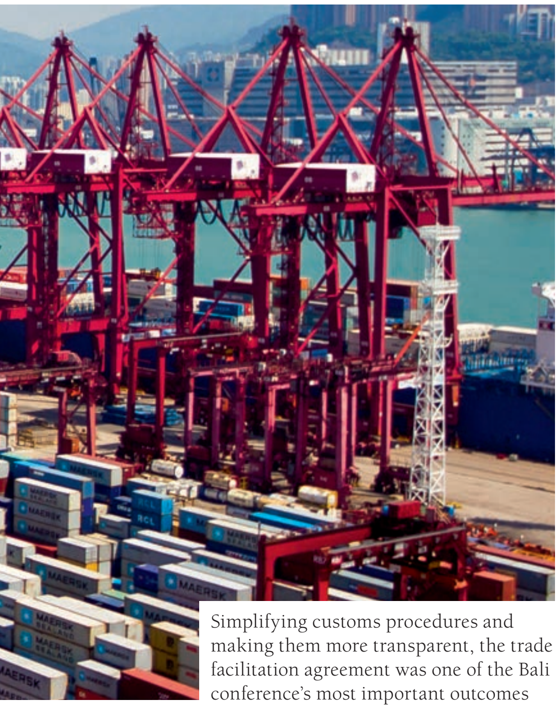
The most recent round of multilateral trade negotiations, the Doha Development Agenda, was launched in 2001. Its objective was to put the concerns of developing countries at the heart of the negotiating agenda. Since 2001, however, the Doha round has suffered prolonged periods when progress has not been forthcoming, not only because of the large number of complex issues on the table, but also because of the changing geopolitical dynamics and the worst financial crisis in three generations.

As a result, while the WTO's dispute settlement and monitoring functions were operating reasonably well, its role as a forum for negotiating new global trade rules was clearly not. In the run-up to the ministerial conference in Bali in December 2013, there was a widespread perception that yet another high-profile failure would deal a devastating blow to the WTO's credibility. Fortunately, members were able to break the stalemate, reaching a landmark agreement.

The Bali package

Multilateral trade deals are never easy, but when they are struck, they matter. And this is very much true of the Bali package, which has three main pillars: trade facilitation, development and agriculture.

In commercial terms, trade facilitation is the most important outcome of the Bali



Simplifying customs procedures and making them more transparent, the trade facilitation agreement was one of the Bali conference's most important outcomes

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ministerial. While tariffs have come down over the years, actually getting goods across borders remains costly in many places. By simplifying customs procedures and making them more transparent, encouraging cooperation among customs agencies and establishing predictable rules for transit, the agreement on trade facilitation will substantially lower trade-related costs. An important aspect of the trade facilitation agreement is the linkage of the provision of financial and technical assistance with the taking on of obligations by developing members.

The development-specific agreements adopted in Bali included a package for the least-developed countries (LDCs). WTO members strengthened their commitments to providing duty-free/quota-free market access to LDC exports, and to stepping up the monitoring of such access. They agreed on indicative parameters on how members can make it easier for LDC merchandise to qualify for these preferential access schemes. Another decision puts in place a process for granting LDC service providers market access on terms more favourable than those extended to other members. Ministers also created a mechanism for monitoring and improving the operation of the many provisions in WTO rules that grant special and differential treatment to developing countries.

In agriculture, members took a further step towards phasing out the highly trade-distorting agricultural export subsidies and measures with equivalent effects. They agreed on procedures aimed at ensuring that existing import quota obligations did not go unused because of red tape rather than low market demand. They renewed a longstanding political commitment to cutting trade barriers and subsidies to cotton – an issue of economic and symbolic importance in the Doha negotiations, in particular to the West African countries that grow it. Ministers also took an important decision on food security, agreeing to a measure to protect developing countries from legal challenges at the WTO over public expenditures incurred while stockpiling staple foods for distribution to the poor.

Putting the plan into action

WTO members now face a twofold task: fully implementing the Bali agreements and devising a work programme on how to proceed with the rest of the Doha agenda by the end of 2014. Both objectives will require all members to work together in a spirit of generosity and compromise. The process of devising the work programme should, of course, be inclusive and transparent, involving all members at every step.

Since the start of 2014, delegations in Geneva have been deliberating over the potential content of the post-Bali work programme. WTO director general Roberto Azevêdo has urged negotiators to choose goals that are realistic and 'doable' in the light of each other's political constraints, and to be ambitious where possible, but also to use what they have learned from over a decade of negotiations about what cannot be achieved. He has asked them to explore creative approaches, while keeping the delivery of tangible development gains, particularly for the poorest countries, at the centre of their efforts. As progress on agriculture will be linked to industrial goods and services, members are considering the increasing need for balance across the different areas of the negotiations, so that all of them can both contribute and benefit.

In tandem with these additional reforms to multilateral trade rules, which might be termed the demand side of the trade equation, many countries still need help building supply capacity if they are to boost their participation in international trade. The aftermath of the financial crisis has taken a toll on official development assistance flows, and aid for trade has been no exception. It is therefore crucial that donors adhere to the commitments they have made and halt this downward trend.

Global development policy discussions, such as the ongoing talks on a successor agenda to the United Nations Millennium Development Goals, would also benefit from active participation by governments that are both major markets and sources of private as well as public development assistance. The post-2015 agenda will shape government policy and catalyse support from new actors for the next decade and a half. It would make sense for the agenda to reflect the deep-rooted connections between trade, sustained growth and sustainable development.

In the area of global partnerships and trade relations, the ongoing bilateral and regional deals being negotiated have the potential to complement the work of the WTO. But they cannot replace the gains that a multilateral trade agreement can deliver, especially for the emerging markets, largely because the WTO remains the only forum that can bring all countries, and all issues, to the table. Clearly, therefore, the world requires an effective WTO to maximise the contribution of free trade to economic growth, employment, poverty alleviation and sustainable development, all of which remain top priorities for all governments. ■

Fair share and fair taxation; a balancing act.

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In 1927, U.S. Supreme Court Justice Oliver Wendell Holmes observed that "taxes are what we pay for civilized society." Reasonable people agree with this. However, like most things in life, balance is called for. Excessively high taxes can represent a cost to society because they dampen economic growth. The composition and mix of taxes are also important, because not all taxes have the same impact on the drivers of the economy. The choices that are made regarding how, what, and whom to tax are critically important to ensuring that the cost of civilized society is funded at the least economic cost to society.

Today, the concept of "fair taxation" has captured the public's attention around the world. Reasonable people agree that everyone should pay their fair share. The focus of many headlines and blogs is on the particular question of whether multinational companies are paying enough tax. These stories often spark vigorous public debate and as such deserve thoughtful analysis. And, the right answer to the question of fair taxation should reflect due consideration of the impact of corporate taxes on the drivers of economic growth and prosperity.

Spurred in part by the public spotlight on the tax profile of multinational corporations and with the strong support of the G7, the OECD has embarked on a major project aimed at addressing government concerns about base erosion and profit shifting (BEPS). We welcome this project as the forum for a truly global discussion of the effectiveness of existing international tax policies and of potential changes to these policies that could have significant implications for cross-border trade and investment. However, it would be short-sighted for the G8 and OECD policymakers to limit their consideration of the issues and the solutions merely to corporate income tax. A holistic approach is called for, with thoughtful consideration given to the right mix of corporate and other tax revenue generating tools to best serve the fiscal needs of governments, while helping to foster economic growth, prosperity and the global recovery.

Many countries trade off lower corporate income taxes to stimulate jobs and investment, which in turn result in other non-corporate tax revenues.

Policymakers seek to improve the lives and welfare of their citizens by attracting foreign direct investment, encouraging domestic investment and entrepreneurship, and incentivizing job creation. Government policies to stimulate investment, jobs, and entrepreneurship often take the form of lower corporate tax rates, accelerated depreciation allowances, corporate tax credits, and other tax incentives. The increased economic activity that is created with these supply-side policies often result in higher individual income, payroll, consumption, and property tax revenues. These increased tax revenues, in turn, offset some or all of the effects of the lower corporate income taxes.

Corporate taxes in a global economy are increasingly borne by workers.

With greater mobility of global capital, recent economic analysis of the economic burden (or incidence) of corporate income taxes show a significant percentage of the corporate tax is borne by persons other than the owners of capital. Like the positive effects of many corporate tax incentives on jobs, personal income and the overall economy, the negative effects of corporate taxation are borne widely throughout a country's economy. High corporate taxation makes a country less attractive for business investment, including inbound investment by foreign-headquartered companies. Less business investment reduces job opportunities, constrains the capital stock and limits productivity growth, the last of which is the primary source of national income growth that fuels worker compensation.

Corporate income taxes are more harmful to economic growth than other taxes.

Recent OECD analysis shows that corporate taxes are more likely to reduce a country's economic growth than other taxes. Again, corporate income taxation lowers the after-tax return to capital, which slows the rate of capital accumulation that, in turn, reduces productivity, including labor productivity. The double taxation of corporate equity income both at the business and shareholder level results in an additional tax on saving and investment.

The economic costs associated with corporate income taxes are significant relative to total corporate tax revenues.

The drag on a country's economy from the economic distortions caused by excessive corporate income tax is high compared to the actual revenues collected. Lower corporate tax rates reduce these economic distortions, as there is an exponential relationship between distortions and marginal tax rates. However, compliance costs borne by corporate taxpayers and tax administration costs borne by governments continue to be high. These compliance costs can be particularly onerous as a relative matter for small and mid-sized businesses (SMEs) – and, SMEs are the job creation engine of most economies.

Real reforms could reduce the economic costs of current corporate income taxes.

It is not necessary to eliminate the corporate income tax to significantly enhance economic growth, reduce economic distortions, and reduce tax complexity. Reforms within the system could reduce the adverse effects of current corporate income taxation. A recent OECD report outlined several fundamental corporate tax reforms that would be beneficial, including integration of corporate and individual income taxes, a shift to a corporate cash-flow tax, and allowances for returns on corporate equity.

Reform of the corporate income tax also requires a recognition that business income is increasingly earned in non-corporate form through vehicles such as partnerships and trusts.

Therefore, we must consider more than just the universe of corporate structures. Because business income can be earned in many forms other than through a corporate structure, governments must more broadly consider how business tax bases are impacted by the use of non-corporate structures. By focusing on taxing income from business activity irrespective of its legal form, governments may be able to raise more revenue, create a level playing field for all business and reduce the harmful impact on their economies.

Now is the time for the G8 and the OECD to seize the opportunity and expand the global discussion around BEPS beyond the current focus on corporate income tax.

It is imperative that policymakers take a broader view of the global tax environment and consider the economic, policy, and revenue dimensions of the whole suite of tax approaches available to governments in funding civilized society. That is the key to ensuring truly fair taxation and fostering prosperity.